Canadian Tricentrol Oils Ltd.
1970
Annual Report

BANKS ISLAND
ALASKA
Inuvik
Coppermine
Norman Wells
YUKON TERR.
NORTHWEST TERRITORIES
Whitehorse
Yellowknife
CABIN LAKE
Fort Nelson
ALBERTA
INGA
BOUNDARY LAKE
BRITISH COLUMBIA
KAYBOB
EAST CENTRAL ALBERTA
See map on page 6.
EDMONTON
PEMBINA
SASKATCHEWAN
CALGARY
VERGER
VANCOUVER
CANADA
U.S.A.
CANTUAR - BUTTE - ILLERBRUN
See map on page 8.
BEARPAW
See map on page 4.
MONTANA
MAP HIGHLIGHTING 1970 ACTIVITY
IN
WESTERN CANADA & MONTANA
○ Areas of Company Interests

CANADIAN TRICENTROL OILS LTD.

(Incorporated under the Laws of Alberta)

OFFICERS

J. G. S. LONGCROFT	*President*
P. M. S. LONGCROFT	*Vice-President*
R. P. ALGER	*Vice-President and Secretary-Treasurer*
P. M. MATHIESON	*Assistant Secretary-Treasurer*

DIRECTORS

R. P. ALGER	*Calgary, Alberta*
A. G. BAILEY	*Calgary, Alberta*
J. G. S. LONGCROFT	*London, England*
P. M. S. LONGCROFT	*London, England*
P. M. MATHIESON	*Calgary, Alberta*

CORPORATE

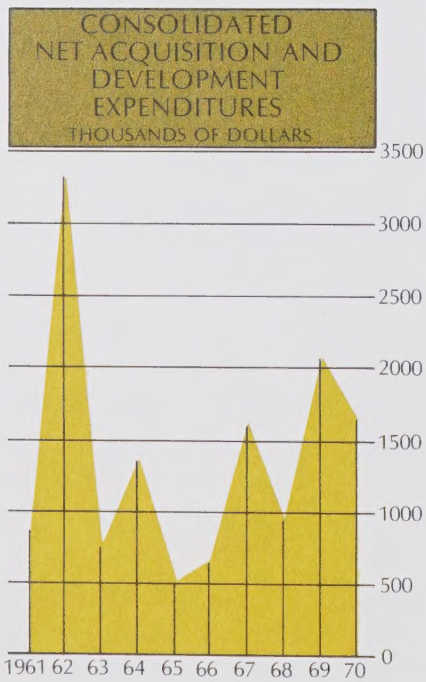
TECHNICAL MANAGERS:	STERLING RESOURCES COMPANY LTD.	*Calgary, Alberta*
TRANSFER AGENTS:	CANADA PERMANENT TRUST COMPANY	*Calgary, Alberta* *Toronto, Ontario* *Vancouver, B.C.*
	CANADIAN BANK OF COMMERCE TRUST COMPANY	*New York, N.Y., U.S.A.*
AUDITORS:	DELOITTE, HASKINS & SELLS CHARTERED ACCOUNTANTS	*Calgary, Alberta*
BANKERS:	THE ROYAL BANK OF CANADA	*Main Branch, Calgary, Alberta*
	FIRST CITY NATIONAL BANK OF HOUSTON	*Houston, Texas, U.S.A.*
STOCK EXCHANGE LISTINGS:	TORONTO, CALGARY AND VANCOUVER STOCK EXCHANGES	
REGISTERED OFFICE:	1500 GUINNESS HOUSE, 727 - 7TH AVENUE S.W.	*Calgary, Alberta*
OPERATIONS OFFICE:	2640, ONE CALGARY PLACE, 330 - 5TH AVENUE S.W.	*Calgary, Alberta*

THE PRESIDENT'S REPORT

To the Shareholders

Your Directors take pleasure in reporting to Shareholders the results of operations and activities of Canadian Tricentrol Oils Ltd. for the year 1970.

The receipt of monthly payments under the 'take-or-pay' clause of the gas purchase contract for reserves associated with the Company's U.S. subsidiary's (High Crest Oils, Inc.) extensive holdings in the Bearpaw area of North-Central Montana resulted in significant increases of cash flow and income during the latter half of the year. These payments became effective as of July 1, 1970 and amounted to gross cash receipts of $1,329,478 (U.S. Funds) for the six month period ended December 31, 1970. In the fall of 1970 the National Energy Board of Canada refused approval of Northern Natural's application to build transmission facilities to permit importation of Tiger Ridge gas to link up with the proposed Canadian pipeline. This denial was followed by a recommendation of the Examiner of the U.S. Federal Power Commission that Northern Natural's request to import natural gas from Canada also be refused. Northern Natural has subsequently renewed its applications for gas export/import permits to both of the Canadian and U.S. regulatory bodies and the Federal Power Commission has given notice that it will reopen its Hearing of Northern Natural's new submission on May 18, 1971.



On March 24, 1971 Northern Natural announced that agreement had been reached with Trans-Canada Pipelines Ltd. regarding the movement of gas from sources of supply in Alberta and Montana to Eastern Canada and Upper Midwest U.S. markets. Under these arrangements, which are subject to regulatory authorizations, gas reserves committed to Northern Natural in the Tiger Ridge area would be transported North by Northern Natural to Trans-Canada's pipeline system for re-delivery to Northern Natural at Emerson, Manitoba, from which delivery point the gas would be taken Southward into the U.S. market area served by Northern Natural. The Agreement calls for initial deliveries of Canadian gas to Trans-Canada to commence on November 1, 1971, with the purchases at Emerson, including our Montana gas, scheduled to commence on November 1, 1972.

After gas production commences, Northern Natural will be entitled to take free one-third of the gas delivered against payments made to the Company prior to initial delivery.

However, if the necessary consents from the regulatory authorities are not forthcoming and Northern gives notice to terminate the gas purchase contract, High Crest Oils, Inc. will continue to receive 'take-or-pay' payments for twelve months from the date of such notice. Should the existing gas purchase contract be terminated, and a new purchase contract entered into between High Crest and another purchaser, then Northern Natural will be entitled to recover all amounts advanced out of one-quarter of seven-eighths of sale of gas to the other purchaser. It should be emphasized that High Crest is obligated to repay 'take-or-pay' receipts only out of future production.

In November, 1970, the Development Loans received from Northern Natural were converted into a form of production payment, payable out of future gas production along the same lines as apply to the obligation under 'take-or-pay' payments, save that the production payment will be discharged first.

Shareholders will note the Auditors' Report attached to the accounts submitted herewith and in particular the specific reference to the accounting treatment applied to the receipts from Northern Natural.

In view of the particular nature of the receipts, as outlined in the Notes to the accounts, the Board are of the view that to record this item other than as income of the year in which it is received would be inappropriate to the circumstances of a small exploration company and misleading to Shareholders.

It has been the Company's practice to refer to deferred taxes by way of a note to the accounts. This practice is under review by your Directors and in future certain deferred taxes may be shown in the income statement.

The level of exploratory and development drilling at Tiger Ridge slowed in the fall of 1970 pending implementation of plans to unitize the area, now nearing completion. The Company participated, with varying interests, in the drilling of 42 wells in the United States, resulting in 21 gas wells and 21 dry holes. 39 of the total wells drilled in the United States were located in the overall Bearpaw region of Montana, and all 21 gas wells were drilled in this area.

In Western Canada, Canadian Tricentrol participated in the drilling of 47 wells, of which 22 were completed as oil wells, 8 as gas wells, the remaining 17 wells being plugged and abandoned as dry holes. Two of the successful gas wells were drilled in the Verger area of Southern Alberta, where the Company also purchased a working interest in 4 additional shut-in gas wells. A sales contract for the Verger gas reserves has been entered into with Northern Natural Gas Company, and an interest-free prepayment of $46,250 was received by the Company in late 1970. These prepayments will be retired over a number of years by the application of part of the proceeds of gas when delivered, and further prepayments will be received as additional reserves are proved by drilling.

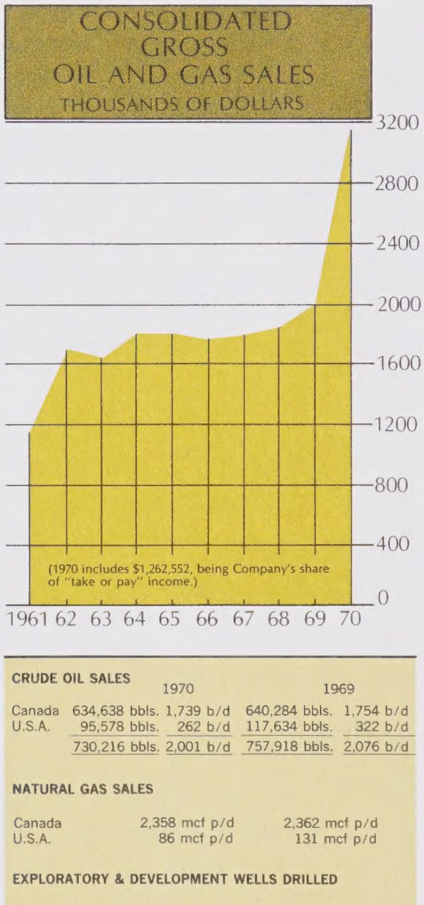
Net sales of crude oil averaged 2,001 barrels per day, a small decrease from last year's daily sales of 2,076 barrels.

Capital expenditures on acquisition, exploration and development of Canadian and U.S. properties totalled $1,651,754 of which $849,939 was expended in Western Canada. In the previous year capital expenditures had aggregated $2,076,425.

Gross revenue from the sale of production in year 1970 amounted to $1,897,283, as compared to $1,969,601 in 1969. After the introduction of other income, the net income of the Company for the year was $2,494,610, in contrast to the previous year's figure of $408,112.

On Behalf of the Board of Directors

JAMES G. S. LONGCROFT
President



CRUDE OIL SALES

	1970		1969	
Canada	634,638 bbls.	1,739 b/d	640,284 bbls.	1,754 b/d
U.S.A.	95,578 bbls.	262 b/d	117,634 bbls.	322 b/d
	730,216 bbls.	2,001 b/d	757,918 bbls.	2,076 b/d

NATURAL GAS SALES

	1970	1969
Canada	2,358 mcf p/d	2,362 mcf p/d
U.S.A.	86 mcf p/d	131 mcf p/d

EXPLORATORY & DEVELOPMENT WELLS DRILLED

	Gross	Net	Gross	Net
Canada — Oil	22	1.73	19	2.75
— Gas	8	1.55	3	.53
— Dry	17	2.98	19	2.96
U.S.A. — Oil	—	—	2	.24
— Gas	21	9.78	44	25.59
— Dry	21	9.96	46	25.93
	89	26.00	133	58.00

FOOTAGE DRILLED

	Gross	Net	Gross	Net
Canada	200,204′	24,799′	165,470′	24,395′
U.S.A.	82,266′	36,195′	207,664′	91,247′
	282,470′	60,994′	373,134′	115,642′

LAND — OIL & GAS ACREAGE

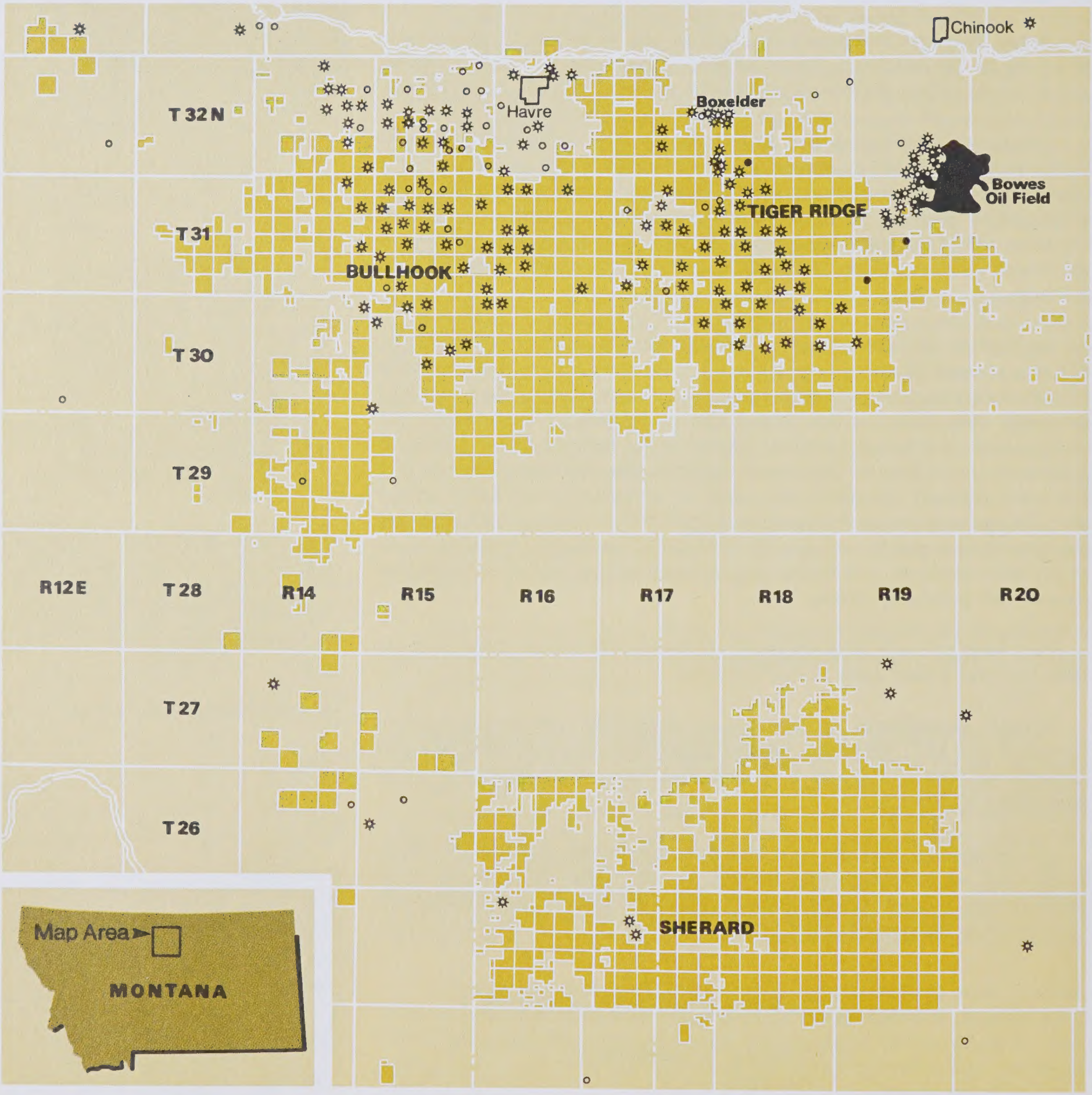
	Gross	Net	Gross	Net
Canada	1,454,170	178,825	1,351,053	154,416
U.S.A.	570,558	341,554	559,258	334,958
	2,024,728	520,379	1,910,311	489,374

BEARPAW AREA-MONTANA

COMPANY LAND HOLDINGS

Location o
Gas Well ☼
Oil Well •

5 0 5
Scale in Miles



1970 REVIEW

U.S.A.

Montana

During the first eight months of 1970 the Company's U.S. subsidiary, High Crest Oils, Inc., continued its active exploration and development drilling program in the Bearpaw area of Northern Montana. By August High Crest had drilled twenty-five wells in the Tiger Ridge/Bullhook areas resulting in thirteen gas wells, in which High Crest holds a 58.5% working interest. In addition, six exploratory tests were drilled in the Big Sandy/Rocky Boy area, of which three were successful gas wells.

The Company ceased its drilling operations in August so as to facilitate the unitization of the Tiger Ridge Field. Considerable effort has been directed towards this objective since then, and it is hoped that unitization will be completed by mid-1971.

Drilling by the other operators outside the immediate field areas continued to the end of the year with High Crest participating as to varying smaller interests in eight wells, of which five were completed as gas wells.

In other areas of Montana, the Company earned 1,100 net acres of leases by participating in a wildcat venture in Liberty County. The well was abandoned after encountering oil and gas shows in two horizons.

Late in the year High Crest commenced the drilling of a Devonian test near the Tule Creek oilfield in Roosevelt County.

High Crest purchased a 100% interest in 3,540 acres in Musselshell County, located near recent oil discoveries in the Tyler Sand. The Company intends to commence exploratory drilling on this block in 1971.

North Dakota

High Crest participated as to a 25% interest in one wildcat play in North Dakota. The objective zone, the Spearfish Sand, was wet, and the well was abandoned.

California

Following the drilling of an unsuccessful development well in the Newhall area of the South Ventura Basin, the Company farmed out its interest in adjoining leases. The subsequent well drilled by the farmee also failed to encounter commercial oil production, and High Crest is currently surrendering its interest in the non-producing acreage in this area.

Louisiana

Several wells in the University Field that had become non-economic to operate were abandoned during the year. Remedial work on certain wells is planned for the near future and it is hoped that this will partly offset the 1970 decline of 12% from 1969 production.

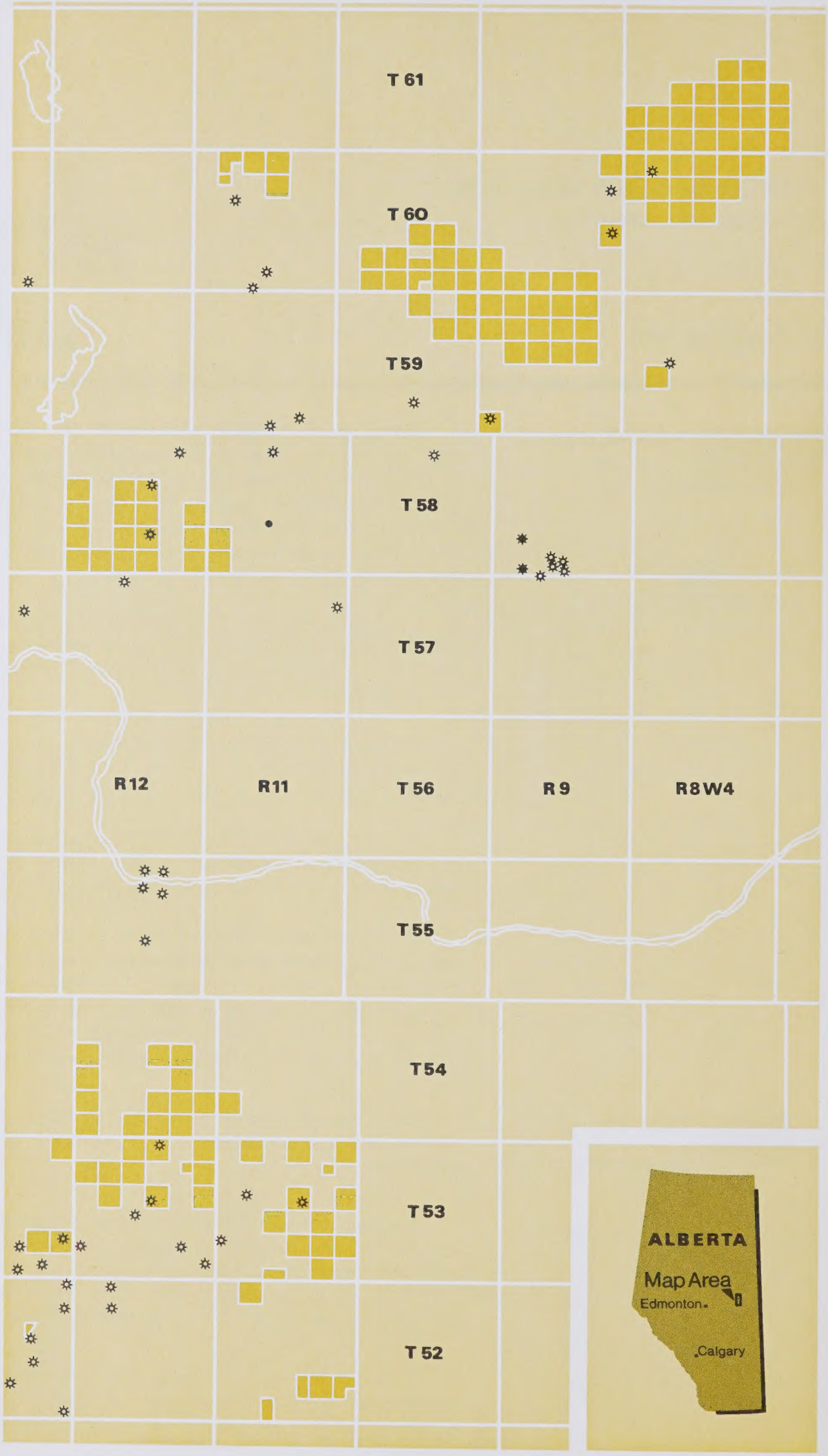
EAST CENTRAL ALBERTA

COMPANY LAND HOLDINGS

Oil Well •

Gas Well ☼

5 0 5
Scale in Miles



Western Canada

Alberta

The Company was an active participant in a large shallow gas play that developed in East-Central Alberta during 1970. By the year end, Canadian Tricentrol had acquired 22,928 net acres of developed and prospective gas property, and had participated with varying interests in drilling seven wells, of which four were completed as potential gas wells. In addition, the Company acquired varying interests in a further six potential gas wells in the same area which is illustrated on the map opposite.

A gas purchase contract covering a portion of these properties has been signed, and sales will commence in January 1971. Most of the lands are still in a development stage and a delay of up to two years is anticipated before all the properties are placed on production.

In Southern Alberta, the Company acquired a 23.125% interest in a gas property comprising 14,640 acres and including four potential gas wells located in the Verger area. Late in 1970, Canadian Tricentrol participated in drilling another two successful gas wells on the property. Northern Natural Gas Company has signed a Gas Purchase Contract which includes a take/pay provision effective January 1, 1972. A prepayment in the amount of $46,250 was made by Northern to the Company in December, 1970.

In the Coutts area of Southern Alberta, development drilling to increase oil reserves has not been successful and the Company has disposed of its 15.47% interest in a producing well in this area for a cash consideration.

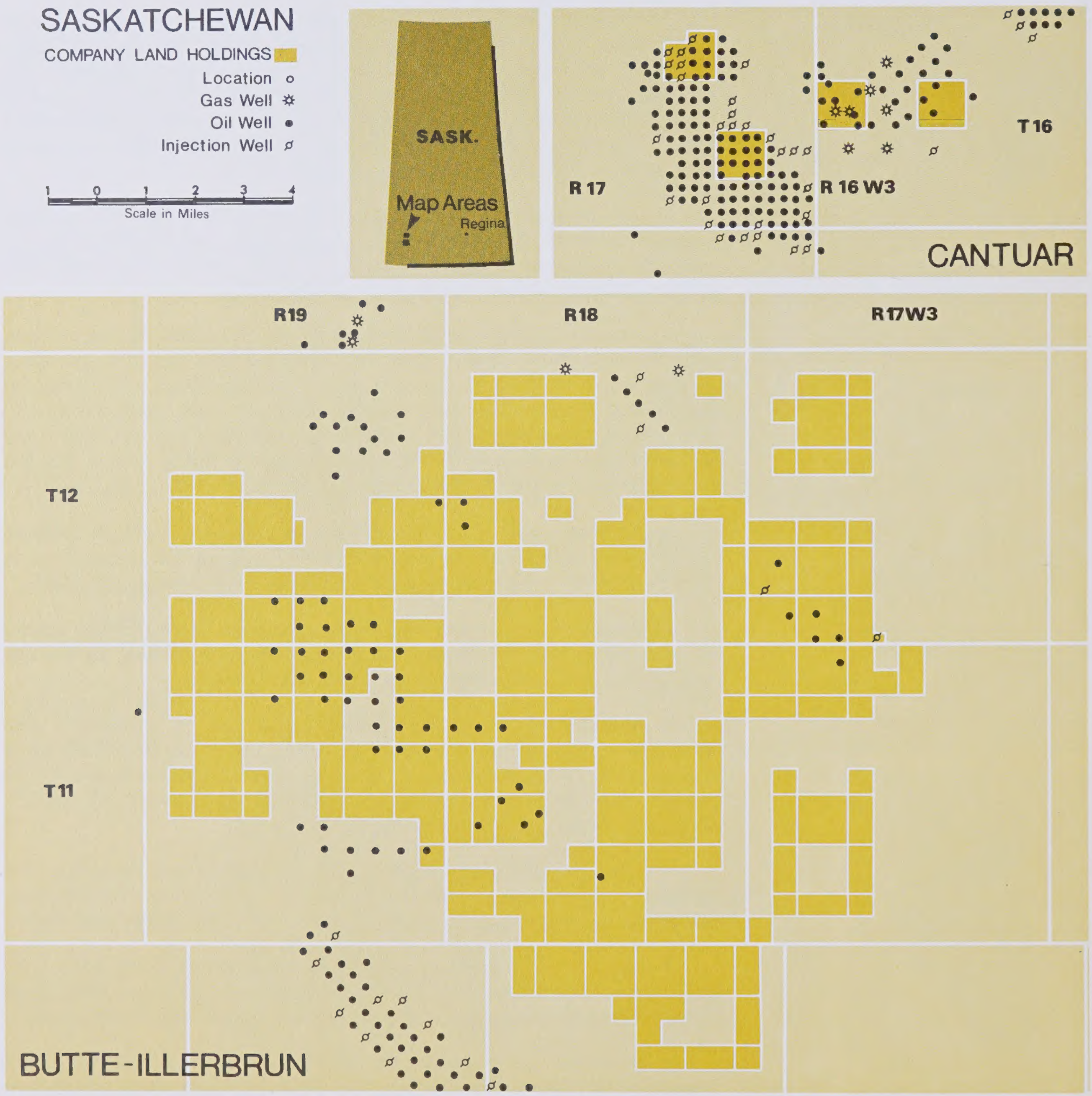
Further north and west in the Province, Canadian Tricentrol participated in lease acquisition and subsequent drilling near Little Smoky. Of the two wells drilled, one was completed as a potential gas well.

In the Pembina area where the Company has varied interests in both Belly River and Cardium oil production, Canadian Tricentrol contributed to the formation of the Pembina Belly River "U" Unit in which it holds a 5.75% interest. The Company also participated in the drilling of seven infill development wells within the Pembina Cardium No. 31 Unit.

Towards the end of the year, Canadian Tricentrol participated with a group in the purchase of a Drilling Reservation in the Kaybob South area, where the prospects for both oil and gas production are quite favourable.

The Company competed for leases in Northern Alberta in the recent East Boundary Lake oil development but was successful in acquiring a small interest in only one parcel. One oil well has been subsequently drilled on this property.

A radiometric survey was carried out this year on the Company's Quartz Permit in the Lake Athabasca area. No significant indications of uranium


SASKATCHEWAN
COMPANY LAND HOLDINGS
Location
Gas Well
Oil Well
Injection Well
1 0 1 2 3 4
Scale in Miles
SASK.
Map Areas
Regina
R 17
R 16 W3
T 16
CANTUAR
R19
R18
R17W3
T12
T11
BUTTE-ILLERBRUN

were found and the Company has surrendered its 13.47% interest in the Permit.

Following shut-down of the Braeburn Gas Plant and abandonment of former gas producing wells in this area, the Company has surrendered its 10% participating interest in a Crown gas lease comprising 13,440 gross acres.

Saskatchewan

During 1970, the Company's exploration was concentrated largely in the Butte-Illerbrun Cantuar area of Southwest Saskatchewan (See Map Page 8). Of the twenty wells in which the Company participated, thirteen were completed as oil wells. The Company's interest in the Butte and Illerbrun wells varies from 8.2% to 12.2%; in Cantuar, Canadian Tricentrol has a 25% working interest. Land acquisition through competitive bidding continued in this area throughout the year, resulting in the purchase of leases totalling 5,415 gross acres.

Previous evaluation in 1969 of the Southwest Saskatchewan uraniferous lignite area had indicated that further exploration was not warranted. The Saskatchewan Government gave approval for the unexpended exploration funds committed to this project, to be applied to the cost of a deep oil or gas exploratory test in the Province. A well in which Canadian Tricentrol has a 12.5% interest located in the Hummingbird area of Southeast Saskatchewan was spudded in late December, 1970.

Geological reconnaissance was conducted in 1970 over a mineral prospecting permit located in the Wollaston Lake area and in which Canadian Tricentrol held a 13.47% interest. Results of the survey were not encouraging and the Company has reduced its land holdings to a single claim block.

British Columbia

The Company's main interests in British Columbia are centred in the Inga oil producing area where Canadian Tricentrol now holds a 5.065% participation in the Inga Unit No. 1 and a participation of 0.782% in the Inga Unit No. 2. Also in this area the Company participated in the drilling of a successful oil well located to the east of the presently unitized lands.

Two wildcat ventures in which the Company participated, failed to find economic quantities of hydrocarbons. One located in the Cache area recovered small volumes of gas from two Triassic Sands, the other test, located in the Jedney area recovered gas and water from Triassic carbonates. A successful gas well in which the Company holds an 18% interest was completed in the Milligan Creek area.

Further north, the Company participated with a group in successfully bidding on a lease located in close proximity to the Cabin Lake gas field.

CANADIAN TRICENTROL OILS LTD.

And Its Wholly-Owned Subsidiaries

CONSOLIDATED BALANCE SHEET

ASSETS	**1970**	**1969**
CURRENT ASSETS:		
Cash	$ 164,978	$ 120,895
Accounts receivable:		
Production and joint operations	528,240	326,925
Other	47,133	38,749
Parent company	23,430	27,313
Crude oil inventory — at posted field price	50,058	48,949
Prepaid expenses	62,547	62,389
Total current assets	876,386	625,220
DEPOSITS AND NOTE RECEIVABLE — at cost (market value, 1970 - $199,690; 1969 - $174,447)	201,771	177,031
PROPERTIES AND EQUIPMENT — at cost (Note 2):		
Developed lease and royalty interests	8,457,998	7,436,924
Production and lease equipment	2,682,266	2,581,804
Undeveloped and non-producing properties	3,792,581	3,395,855
	14,932,845	13,414,583
Less accumulated depletion and depreciation (Note 4)	3,735,645	3,270,126
Net properties and equipment	11,197,200	10,144,457
INCORPORATION EXPENSE — at cost	606	606
TOTAL	$12,275,963	$10,947,314

Approved by the Board:

J. G. S. LONGCROFT, *Director*

R. P. ALGER, *Director*

The accompanying notes are an integral part of the financial statements.

AS AT DECEMBER 31, 1970 (with 1969 figures for comparison)

LIABILITIES AND SHAREHOLDERS' EQUITY	1970	1969
CURRENT LIABILITIES:		
Bank loan payments due within one year, repayable $600,000 in Canadian funds and $360,000 U.S. funds	$ 964,163	$ 724,641
Accounts payable and accrued liabilities	391,479	388,573
Due to parent company	25,730	25,730
Total current liabilities	1,381,372	1,138,944
LONG-TERM DEBT:		
Bank loans secured by the hypothecation of certain producing properties and/or the proceeds therefrom, repayable in $905,000 Canadian funds, $980,886 U.S. funds, less included in current liabilities	1,945,129	1,736,006
Development Loan Agreement payable — repayable in U.S. funds, $1,830,941 (Note 3)	—	1,975,380
Prepayment on future gas deliveries	46,250	—
Non-interest-bearing advances from parent company, no fixed terms of repayment	910,890	1,114,890
Total long-term debt	2,902,269	4,826,276
ESTIMATED PRODUCTION COSTS AND ROYALTIES PAYABLE (Note 4)	515,618	—
SHAREHOLDERS' EQUITY:		
Capital stock (Note 9):		
Authorized:		
1,250,000 common shares of a par value of $2 each		
Issued and fully paid:		
1970 and 1969 — 1,148,355 shares	2,296,710	2,296,710
Contributed surplus (Note 6)	595,630	595,630
Retained earnings	4,584,364	2,089,754
Total shareholders' equity	7,476,704	4,982,094
TOTAL	$12,275,963	$10,947,314

CANADIAN TRICENTROL OILS LTD.

And Its Wholly-Owned Subsidiaries

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For The Year Ended December 31, 1970

(with 1969 figures for comparison)

	1970	1969
INCOME:		
Sale of crude oil and natural gas	$1,885,986	$1,959,193
Royalty income	11,297	10,408
Total income	1,897,283	1,969,601
OPERATING EXPENSES:		
Production and royalty expense	888,092	839,976
INCOME FROM PRODUCTION	1,009,191	1,129,625
OTHER INCOME:		
Sale of an interest in the proceeds of future gas sales, less related costs, resulting from gas purchase contract (Notes 3, 4 and 5)	872,125	—
Interest income	7,839	36,927
Miscellaneous	8,255	35,447
Total other income	888,219	72,374
INCOME BEFORE EXPENSES	1,897,410	1,201,999
EXPENSES:		
General and administrative	243,689	193,617
Interest	218,126	168,010
Total expenses	461,815	361,627
INCOME BEFORE DEPLETION AND DEPRECIATION	1,435,595	840,372
PROVISION FOR DEPLETION AND DEPRECIATION	411,391	432,260
INCOME FOR THE YEAR BEFORE EXTRAORDINARY INCOME ($.89 and $.36 per share)	1,024,204	408,112
EXTRAORDINARY INCOME:		
Sale of an interest in the proceeds of future gas sales, less related costs, resulting from conversion of a development loan (Notes 3, 4 and 5)	1,363,006	—
Gain on foreign exchange	107,400	—
NET INCOME FOR THE YEAR (Note 7) ($2.17 and $.36 per share)	2,494,610	408,112
RETAINED EARNINGS AT BEGINNING OF THE YEAR	2,089,754	1,681,642
RETAINED EARNINGS AT END OF THE YEAR	$4,584,364	$2,089,754

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For The Year Ended December 31, 1970

(with 1969 figures for comparison)

	1970	1969
FUNDS PROVIDED:		
Net income for the year	$2,494,610	$ 408,112
Depletion and depreciation	889,092	432,546
Estimated production costs and royalties	515,618	—
Total funds provided from operations	3,899,320	840,658
Bank loans	2,071,126	1,013,984
Proceeds from development loan	166,327	1,975,380
Advances from parent company	—	49,907
Sales of capital stock	—	291,600
Proceeds from sale of property and equipment	23,070	4,473
Collection of advances and deposits	55,250	21,187
Total funds provided	6,215,093	4,197,189
FUNDS APPLIED:		
Additions to properties and equipment:		
Acquisition of properties	624,819	274,828
Exploration and development	923,068	1,507,748
Production and lease equipment	103,867	293,849
Undeveloped lease rental expense	313,172	267,224
Total additions to properties and equipment	1,964,926	2,343,649
Repayment of bank loans	1,862,003	755,124
Repayment of advances from parent company	204,000	433,500
Increase in deposits and note receivable	33,717	4,192
Conversion of a development loan into a production payment (Notes 3 and 5)	2,141,709	—
Total funds applied	6,206,355	3,536,465
INCREASE IN WORKING CAPITAL FOR THE YEAR	8,738	660,724
DEFICIENCY IN WORKING CAPITAL AT BEGINNING OF THE YEAR	513,724	1,174,448
DEFICIENCY IN WORKING CAPITAL AT END OF THE YEAR	$ 504,986	$ 513,724

The accompanying notes are an integral part of the financial statements.

CANADIAN TRICENTROL OILS LTD.

And Its Wholly-Owned Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1970

1. PRINCIPLES OF CONSOLIDATION:

The accounts of High Crest Oils, Inc. and Montana Natural Gas Company, wholly-owned United States subsidiary companies, and Gerla Petroleums Limited are included in the consolidated financial statements. The accounts of the United States subsidiaries were converted; (a) as to current assets and current liabilities, at the rate of exchange prevailing at December 31, 1970, and (b) as to properties and equipment, long-term debt, and capital stock, at historical rates, and (c) as to income and expenses (except depletion and depreciation), at the approximate average rate for the month in which the transactions occurred, and as to depletion and depreciation, at the exchange rates applicable to the related properties and equipment.

2. ACCOUNTING PRACTICES:

The companies use the full-cost method of accounting, whereby all costs relating to the exploration for and development of oil and gas reserves, including exploration overhead and management fees where appropriate, are capitalized, whether the related property is producing or non-producing. Undeveloped lease rental expenses are charged against accumulated depletion and depreciation. Proceeds from the disposal of properties are deducted from net asset costs without recognition of profit or loss. Depletion of oil and gas properties is computed on the total of all such costs recorded to date plus an estimate of the company's share of anticipated costs to place certain gas properties in condition to deliver the gas called for by a gas purchase contract, using the unit-of-production method based upon the total estimated recoverable reserves. Depreciation of production equipment is computed in a similar manner.

3. GAS PURCHASE CONTRACT AND PRODUCTION PAYMENT AGREEMENT:

Under a gas purchase contract signed in 1969, a subsidiary company has received funds which relate to the sale of an interest in the proceeds of future gas sales. The contract extends for a period of twenty years following commencement of delivery of gas, subject to termination by the purchaser on sixty days' notice and, following the twenty-year period, from year to year, subject to one year's notice of termination by either party. After December 31, 1971, in certain circumstances, the subsidiary company may terminate the contract by giving six months' notice. Under certain conditions, the purchaser is committed to continue payments to the company for one year following the date of termination.

If delivery of gas is made to the purchaser, or to any other party, a portion of the proceeds resulting from the delivery is to be paid to the purchaser. Payment is at the rate of 33⅓% of proceeds if delivery is made to the purchaser, and 25% of ⅞'s if to any other party. The upper limit of such payments is the amount advanced prior to commencement of delivery under the gas purchase contract (U.S. $1,329,478 at December 31, 1970) and the converted development loan mentioned below (U.S. $1,993,971 at December 31, 1970).

In November 1970, the subsidiary company exercised its option under a development loan agreement to convert the loan into a production payment agreement, and thereby sold an interest in the proceeds of future gas sales.

Under both the gas purchase contract and the production payment agreement, there is no obligation on the part of the company to repay the funds received should production not commence. Upon commencement of production and delivery, the operation of the gas purchase contract parallels that usually associated with "take-or-pay" agreements.

4. OTHER INCOME AND EXTRAORDINARY INCOME:

(a) Provision has been made, as follows, for costs relating to the sales of an interest in proceeds of future gas sales:

	Gas Purchase Contract	Conversion of Development Loan
Net receipts	$1,262,552	$1,965,898
Related costs:		
Production costs and royalties	201,436	314,182
Depletion and depreciation	188,991	288,710
Total related costs	390,427	602,892
Other income	$ 872,125	
Extraordinary income		$1,363,006

The production costs and royalties provided for are shown in the balance sheet as "Estimated Production Costs and Royalties Payable", and the amounts shown for depletion and depreciation have been included in "Accumulated Depletion and Depreciation".

(b) Although the company has elected to account for receipts under the gas purchase contract and production payment agreement on the basis set out above, an alternative accounting treatment as recommended by a recent Research Study on Financial Reporting in the Extractive Industries sponsored by the American Institute of Certified Public Accountants would result in the receipts being treated as deferred income and the following changes in these financial statements:

In the Statement of Income:

Other Income and Income For The Year Before Extraordinary Income would be reduced by $872,125.

Extraordinary Income and Net Income For The Year would be reduced by $1,363,006 and $2,235,131, respectively.

In the Balance Sheet:

Accumulated depletion and depreciation would be reduced by $477,701.

Estimated Production Costs and Royalties Payable of $515,618 would be eliminated.

Retained Earnings would be reduced by $2,235,131.

Deferred Income of $3,228,450 would be shown.

In the Statement of Source and Application of Funds:

Total funds provided from operations would be reduced by $3,228,450, and a like amount shown as funds provided through receipts under a production payment agreement and a gas purchase contract. There would be no change in the total funds provided.

5. NATURE OF NET RECEIPTS FROM PRODUCTION PAYMENT AGREEMENT AND GAS PURCHASE CONTRACT:

As stated previously, after initial delivery to the purchaser commences, the company has no liability in connection with the development loans (now converted to a production payment) or the receipts under the gas purchase contract, excepting only to supply appropriate quantities of gas in the future. There being no dollar liability involved, the funds received in this connection belong to the shareholders, and must find their way into the shareholders' equity section of the balance sheet. To do this, they must be reflected as income, and this the company has done.

The company believes that to reflect these receipts as deferred income would be misleading to shareholders and other interested parties.

The amounts are material, the nature of the amounts received is clear, and to reflect them other than as they are would be improper. Therefore, in these circumstances, the company believes the amounts involved to be properly reflected as income, despite the adverse view of the company's auditors.

6. CONTRIBUTED SURPLUS:

Amounts received by the company in excess of the par value of issued capital stock have been credited to contributed surplus. The account has been reduced in prior years by deficits written off in the course of company reorganization, and an appropriation to recognize non-recoverable costs of developed properties and surrender or disposal of undeveloped properties. During 1969, contributed surplus was increased by $97,200 which represented the excess consideration of shares issued for cash over par value.

7. INCOME TAXES:

No material income taxes are payable by the company or its Canadian and United States subsidiaries for 1970, since development expenditure and depletion allowances which may be claimed under the respective Income Tax Acts are in excess of those shown in the accounts of the companies. Subject to any changes which may arise upon assessment of the companies' tax returns, approximately $4,300,000 unclaimed expenditures or loss-carry-forward remained at December 31, 1970.

The company does not consider it appropriate to provide for income taxes deferred as a result of claiming for income tax purposes drilling, exploration and lease acquisition costs, in excess of the related charges to earnings, and this view conforms to general practice in the oil and gas industry. The company also does not consider it appropriate to provide for income taxes deferred as a result of recognizing income in the accounts before it is subject to income tax and the claiming of depreciation for tax purposes in excess of that charged to earnings. Had this latter practice been followed, reported net income for the year would be $1,804,610, and the balance sheet would reflect a credit for deferred income taxes of $690,000.

These practices differ from the tax-allocation recommendation of the Canadian Institute of Chartered Accountants that income tax be provided for on the basis of income reported in the accounts. If the tax-allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of $1,094,163 ($130,670 - 1969) would have been provided, and net earnings for the year would have been reduced accordingly. The accumulated deferred income tax provisions covering the current and prior years would have amounted to $1,924,095.

8. REMUNERATION OF MANAGEMENT AND OTHERS:

Directors' fees paid during 1970 were $3,757 (1969 - $1,792). No direct remuneration was paid during the year to senior officials of the company, since the company and its subsidiaries do not have any employees. Instead, $263,276 (1969 - $237,516) was paid to various management companies for administrative and technical services and normal overhead charges. Included in this amount is $120,828 (1969 - $141,146) paid to the companies' technical managers for services in connection with property acquisition, exploration and development which has been capitalized in accordance with the companies' adopted accounting practice. The balance of $142,448 (1969 - $96,370) is included in general and administrative expenses.

9. MANAGEMENT CONTRACTS:

Effective January 1, 1970, and as approved by shareholders at a Special General Meeting, the company and its subsidiaries entered into management agreements which will provide them with all administrative, property management, and technical services.

Under the terms of these agreements, the companies are contractually liable for a period of five years for:

(a) a fee of $50,000 per annum, together with all reimbursable costs;

(b) an incentive option on 100,000 shares of the company, exercisable at any time up to December 31, 1975 at $30 per share;

(c) a fee based on 10% of all approved capital expenditures and an assignment of gross royalty equal to 2% of the working interests acquired by the company;

(d) a 10% reversionary interest in these same properties after recovery by the companies of stipulated costs.

AUDITORS' REPORT

To the Shareholders of
Canadian Tricentrol Oils Ltd.:

We have examined the consolidated balance sheet of Canadian Tricentrol Oils Ltd. and its wholly-owned subsidiaries as at December 31, 1970 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

As explained in Note 7, the company does not provide for income taxes which have been deferred as a result of including in the income statement costs and revenues which will enter into the computation of taxable income in another year or years. If the alternative accounting practice set out in Note 4(b) had been followed, no provision would be required for deferred income taxes, as the income otherwise giving rise to such deferrals would itself be deferred.

During the current year, as outlined in Notes 3 and 4, a subsidiary company has received funds under a gas purchase contract, which funds have been included in other income, and has converted a development loan, mostly received in the prior year, into a production payment which has been included in extraordinary income, in both cases after providing for applicable costs. Although the practice of recognizing such receipts as income when received has been followed by some companies, in our opinion this accounting practice is not in accordance with generally accepted accounting principles in North America. The prevalent practice is to record receipt of such amounts as deferred income, and to recognize these amounts as income when the gas is produced and delivered, which practice, if adopted, would result in the changes set out in Note 4(b) to the financial statements.

Although full disclosure of the relevant facts has been made in the financial statements and notes thereto, the effect of the accounting practice chosen by the company is sufficiently material that we must offer an "adverse opinion" as that term is used in recommendations of the Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants. Accordingly, in our opinion, the accompanying consolidated financial statements, taken as a whole, do not present fairly the financial position of the company and its wholly-owned subsidiaries as at December 31, 1970 and the results of their operations and the sources and applications of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In our opinion, however, in all material respects, the assets, apart from the reduction of $477,701 in "Net properties and equipment", and the liabilities, apart from the inclusion of "Estimated Production Costs and Royalties Payable" and the omission of Deferred Income of $3,228,450, are presented fairly in the balance sheet; income, operating expenses, expenses, provision for depletion and depreciation, and the gain on foreign exchange are presented fairly in the statement of income; and the items, other than those mentioned in Note 4(b), are presented fairly in the statement of source and application of funds, all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
April 7, 1971.

DELOITTE, HASKINS & SELLS
CHARTERED ACCOUNTANTS

Canadian Tricentrol Oils Ltd.

Summary of Oil and Gas Property Interests as at December 31, 1970

AREA	GROSS ACRES	NET ACRES	WELLS CAPABLE OF PRODUCTION Oil	Gas
CANADA				
ALBERTA				
Acheson	160	18	1	
Ashmont	3,040	640		
Asplund — Little Smoky	13,640	1,886		1
Atlee	39,162	4,663		12
Bigoray	1,280	156		
Boundary Lake South	320	20	1	
Buffalo (North)	1,280	616		1
Chigwell	160	43	1	
Chip Lake	1,280	231		
Clive	1,920	960		
Coutts	2,880	336	1	1
Crossfield	14,215	1,325	76	
Duvernay	27,992	6,860		5
Etzikom	3,832	3,640		1
Fenn Big Valley	1,760	1,716		
Ghost Pine	144,800	309		37
Glendon	48,000	6,000		
Halkirk	1,280	427		1
Hussar	8,160	249	37	7
Joarcam	4,280	8	103	
Judy Creek	320	320		
Kaybob South	11,040	1,340		
Malmo	320	40	1	
Manyberries	2,080	1,001	1	
Matzhiwin	14,640	3,386		6
Medicine River	3,760	36	30	
North Sedalia	3,840	1,216		1
Oyen	1,280	320		1
Onefour	3,940	975		
Pakowki Lake	24,308	2,905		10
Pembina	164,565	6,998	1,342	
Pembina River	3,360	840		
Red Earth	160	27		
Saddle Lake	11,520	2,880		2
Sedalia	11,687	2,849		2
Tilley	4,960	597		
Villeneuve	804	387		
Wainwright	1,940	276	57	1
West Virginia Hills	14,720	3,042		
Willesden Green	8,960	153	59	
Wimbourne	27,620	15		25
TOTAL ALBERTA	635,265	59,706	1,710	114
ARCTIC				
Banks Island	401,504	100,376		
BRITISH COLUMBIA				
Beatton River	346	115		
Blueberry	3,474	212	1	
Buick Creek/Inga	34,266	2,163	71	1
Cabin	654	82		
Cameron River	8,087	1,300		
Jedney	6,118	1,019		
Laprise Creek	690	673		
Milligan Creek	520	94		2
Oriole	2,809	351		
TOTAL BRITISH COLUMBIA	56,964	6,009	72	3

AREA	GROSS ACRES	NET ACRES	WELLS CAPABLE OF PRODUCTION Oil	Gas
SASKATCHEWAN				
Alameda	7,600	705	92	
Antelope	681	227		
Bellegarde	792	176		
Browning	1,040	224		
Cantuar	11,200	444	161	2
Carnduff	3,870	185	59	
Coleville	48,461	72		37
Glen Ewen	8,960	398	53	
Hatton	4,959	1,240		
Hoosier	31,798	148		19
Illerbrun/Butte	59,817	5,460	51	
Lampman	1,000	22	13	
Lloydminster	70	63	2	
Lost Horse Hills	480	192		
Milton	3,836	932		6
Oungre	1,280	616	1	
Parkman	230	57		
Queensdale	80	20	1	
Steelman	61,960	1,531	659	
Weyburn	52,720	22	666	
TOTAL SASKATCHEWAN	300,834	12,734	1,758	64
ROYALTY INTERESTS				
ALBERTA				
Campbell	120		1	
Halkirk	4,478			1
Judy Creek	640			
Leduc	160		1	
Northern Alberta	42,520			
Pembina	310		2	
Willesden Green	159		1	
	48,387		5	1
SASKATCHEWAN				
Alameda	480		5	
Cactus Lake	3,210			
Carnduff	720		9	
Hastings	640		3	
Hoosier	1,918			3
Illerbrun	1,368			
Northgate	1,600		10	
Queensdale	400		1	
Steelman	880		9	
	11,216		37	3
TOTAL CANADA	1,454,170	178,825	3,582	185
UNITED STATES				
CALIFORNIA	1,950	238	2	
KANSAS	1,400	1,400	10	
LOUISIANA	4,008	1,705	25	
MONTANA	561,681	337,470	2	92
WYOMING	1,519	741		
TOTAL UNITED STATES	570,558	341,554	39	92
GRAND TOTAL	2,024,728	520,379	3,621	277

THE PARENT GROUP

TRINIDAD CANADIAN OILS LIMITED
The group holding company operating the Trinidad oil division.
1

TRICENTROL OILS LIMITED
A Canadian registered Company wholly owned by Trinidad Canadian Oils Limited being the non-trading North American holding company.
2

NORTH SEA VENTURES LTD.
A U.K. registered Company wholly owned by Trinidad Canadian Oils Limited.
3

BRITISH AUSTRALIAN OIL AND INVESTMENT CORPORATION LTD.
An Australian registered investment company wholly owned by Trinidad Canadian Oils Limited.
4

IERE HOTELS LTD.
A Trinidad registered Company operating the Hotel Division, 90% owned by Trinidad Canadian Oils Limited.
5

CENTRAL INDUSTRIAL HOLDINGS LTD.
A U.K. registered Company wholly owned by Trinidad Canadian Oils Limited.
6

CANADIAN TRICENTROL OILS LTD.
A Canadian registered Company 89.46% owned by Tricentrol Oils Limited trading in Alberta, Saskatchewan, and British Columbia, Canada.
7

HIGH CREST OILS, INC.
A United States registered Company wholly owned by Canadian Tricentrol Oils Ltd. trading in California, Kansas, Louisiana, Montana and Wyoming, U.S.A.
8

R. RONALDON & CO. LTD.
A U.K. registered Company owned 100% by Central Industrial Holdings Ltd. trading as wholesale plumbing merchants.
9

LEA HEATING MERCHANTS LIMITED
A U.K. registered Company owned 51% by Central Industrial Holdings Ltd. trading as wholesale heating merchants.
10

LUTON MOTOR GROUP
A Group operating Ford franchises in the U.K. for automobiles and commercial vehicles, wholly owned by Central Industrial Holdings Ltd.
11

Tri Graphics
Calgary
Foothill Printers Limited Calgary
LITHOGRAPHED IN CANADA

AR09

Canadian Tricentrol Oils Ltd.

	First 6 Months 1970		First 6 Months 1969	
CRUDE OILS SALES (Before Royalty)				
	Bbls.	B/D	Bbls.	B/D
Canada	313,009	1,729	290,569	1,605
United States	48,376	267	59,714	330
	361,385	1,996	350,283	1,935
EXPLORATION AND DEVELOPMENT WELLS DRILLED				
	Gross	Net	Gross	Net
Oil — Canada	4	.55	12	1.67
Gas — Canada	2	.30	2	.41
Dry — Canada	3	.50	9	1.44
Oil — United States	—		2	.24
Gas — United States	14	8.12	12	7.02
Dry — United States	15	8.31	18	10.49
	38	17.78	55	21.27
FOOTAGE DRILLED				
	Gross	Net	Gross	Net
Canada	39,213	6,287	106,141	16,270
United States	56,958	27,172	84,303	34,994
	96,171	33,459	190,444	51,264
OIL AND GAS LEASE AND RESERVATION HOLDINGS				
	Net Acres		Net Acres	
Canada	165,788		160,303	
United States	332,418		333,541	
	498,206		493,844	

LITHOGRAPHED IN CANADA

Sub

Canadian Tricentrol Oils Ltd.

INTERIM REPORT

For six months ended

June 30, 1970

2640 One Calgary Place
330 - 5th Avenue S.W.
Calgary 1, Alberta, Canada

EXPLORATION AND DEVELOPMENT

WESTERN CANADA

ALBERTA

Little Smoky/Asplund

The Company supplemented its land holdings in this area by acquiring a 24¾% interest in an additional 640 lease acres at the Alberta Crown P&NG Lease Sale held January 20, 1970. The Company participated in the drilling of 2 wells in this area during January, 1970, one of which was completed as a suspended Viking gas well, the other being plugged and abandoned as dry.

Coutts

Two wells drilled in participation with other operators failed to encounter commercial production and were subsequently abandoned. The Company has surrendered its 12⅛% interest in a quarter section of land but continues to retain its proportionate interest in 2,880 gross acres in the area.

Saddle Lake

A 25% participating interest has been acquired in 15,360 acres of Indian Oil & Gas Permit lands. It is the intention of the Company to join in the drilling of two exploratory wells later in the year to evaluate the shallow gas potential of this acreage.

Duvernay

Canadian Tricentrol obtained a 50% participating interest at a recent Crown Sale in 5,120 acres of P&NG leases in what is considered to be potential gas bearing lands in the Duvernay area of east-central Alberta. A gas unit being formed to the south will be placed on stream in November 1970. The Company is currently planning development of this acreage and if drilling is successful Canadian Tricentrol anticipates its wells being included in this unit.

Judy Creek

The Company has sold its 25% working interest in 640 acres of P&NG leases for a cash consideration and retention of a 2% gross overriding royalty interest.

Braeburn/Saddle Hills

Following shut-down of the Braeburn Gas Plant and abandonment of former gas producing wells in this area, the Company has surrendered its 10% participating interest in a Crown gas lease comprising 13,440 gross acres.

BRITISH COLUMBIA

Milligan Creek

Canadian Tricentrol participated with an 18% working interest in the successful drilling of a gas well producible from the Bullhead formation. The absolute open flow potential of the well was calculated to be 3.55 mmcf of gas per day.

SASKATCHEWAN

Illerbrun/Butte

Extension and development of the Company's operations at Illerbrun and Butte areas of Southwest Saskatchewan are continuing, and minor acreage was added to Company holdings during the first half of 1970. Three additional wells drilled with other operators during the period were successfully completed as Upper Shaunavon oil producers. These three wells resulted in a total initial production of 150 barrels of oil per day.

Cantuar

The Company holds a 25% working interest in a development well drilled at East Cantuar field which obtained production from the Roseray Sand.

UNITED STATES

MONTANA

Tiger Ridge/Bullhook

The Company's wholly owned U.S. subsidiary, High Crest Oils, Inc. continued to participate in exploration and development drilling in the Tiger Ridge/Bullhook area. A total of 21 wells were drilled of which 11 resulted in successful Eagle Sand gas wells. Additional Federal and State leases aggregating 1,040 acres (Company share 58½%) were acquired during the period up to June 30th.

Sherard

Existing acreage at Sherard was supplemented by the addition of 634 acres of Federal P&NG Leases acquired at a Federal Lease Sale in June 1970.

Big Sandy/Rocky Boy

Of 6 exploratory wells drilling in this general area of the Bearpaws, 3 gas wells resulted, the remaining 3 wells being abandoned as dry.

NORTH DAKOTA

South Russell

The Company participated with a 25% working interest in the drilling of a test well in the South Russell area of Bottineau County to a depth of 3,507 feet. However, a drill stem test of the Triassic-Spearfish sandstone objective recovered 810 feet of saltwater, the sandstone being structurally low and poorly developed, and the well was subsequently plugged and abandoned.

CALIFORNIA

Newhall

A further exploratory well drilled to a depth of 9,700 feet failed to find commercial production, and was abandoned as a dry hole.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(Unaudited — expressed in Canadian dollars)

	Six months ended June 30 1970	1969
FUNDS PROVIDED		
Net income for the period	$ 123,980	$ 189,506
Add: non-cash items and depletion and depreciation	216,323	197,874
Total funds provided from operations	340,303	387,380
Bank loans	811,495	688,984
Advances from parent company	—	49,466
Proceeds from sale of property and equipment	3,400	984
Collection of notes and deposits	—	4,000
Sales of capital stock	—	291,600
Development loans	121,244	1,262,764
Total funds provided	1,276,442	2,685,178
FUNDS APPLIED		
Additions to properties and equipment:		
Acquisition of properties	188,350	117,355
Exploration and development	528,104	566,936
Production and lease equipment	61,663	146,509
Undeveloped lease rental expense	245,466	202,587
Total additions to property and equipment	1,023,583	1,033,387
Repayment of bank loans	393,762	354,580
Long-term debt reclassified as current	229,821	283,500
Increase in non-current deposits and receivables	2,000	18,368
Loan repayment to parent company	1,000	—
Total funds applied	1,650,166	1,689,835
NET (DECREASE) INCREASE IN WORKING CAPITAL	(373,724)	995,343
	$1,276,442	$2,685,178

CONSOLIDATED STATEMENT OF INCOME

(Unaudited — expressed in Canadian dollars)

	Six months ended June 30 1970	1969
INCOME		
Sales of crude oil and natural gas	$936,675	$919,075
Royalty income	5,125	5,276
	941,800	924,351
Less: royalties and production expense	410,173	383,258
	531,627	541,093
Miscellaneous income	2,589	20,154
OPERATING INCOME	534,216	561,247
EXPENSES		
General and administrative	103,626	89,812
Interest	93,000	83,890
	196,626	173,702
Income before depletion and depreciation	337,590	387,545
Provision for depletion and depreciation	216,530	198,014
Income before non-recurring items	121,060	189,531
Non-recurring and exceptional items	(2,839)	1,900
Gain on exchange conversion	—	(1,875)
	(2,839)	25
NET INCOME FOR THE PERIOD	$123,899	$189,506

To the Shareholders:

During the first six months of 1970 exploration and development drilling continued in the Bearpaw Area of Montana, and of 21 wells drilled, 11 were completed as gas wells. Plans for the full development of the reserves and establishment of adequate deliverability in the area prior to delivery of gas are being finalized, and the documents covering the unitization of the major reserves in the area are in the course of preparation. Receipts under the gas sales contract between Northern Natural Gas Company and High Crest Oils, Inc., commenced effective from 1st July, 1970, and amount to $220,000 per month gross based on proven reserves of 340 b.c.f. Income from other sources in the U.S.A. declined sharply during the period under review, accounting for some $45,000 of the short-fall in profit from $189,506 to $123,899. Considerable remedial measures have been undertaken which it is hoped will provide better results in the second half of the year.

To date, neither the National Energy Board of Canada nor the Federal Power Commission of the U.S.A. has handed down its decision on Northern Natural's applications to build gas transmission facilities which will permit the taking of gas from our Company's reserves in Montana. It is currently hoped that these decisions will be finalized before the end of 1970, with the delivery of gas commencing in November 1971.

If Northern Natural fails to obtain the requisite certificates and approvals, the contract provides that the payments under the "take or pay" clause will continue for a further 12 months, during which time arrangements will be made by High Crest for the sale of the gas to other parties, in which event High Crest will pay to Northern Natural 25% of ⅞ths of its sales proceeds from such other parties until Northern Natural has recovered payments made for gas which it was not able to take.

After gas production commences, Northern Natural is entitled to retain one-third of the proceeds of sale as a credit against payments made to High Crest prior to initial delivery. Northern Natural has no other right of recovery. Accordingly, the receipts under the gas sales contract may decline after deliveries of gas commence, but Northern Natural may take up to 150% of contract quantity, and extra deliveries of gas could offset this potential reduction in cash receipts and income. The other activities of the Company are summarized elsewhere in this report.

J. G. S. LONGCROFT

President.